

THE MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY



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THE MICHIGAN MUNICIPAL BOND AUTHORITY

**Under the Authority of Part 53, Clean Water Assistance, of the Natural Resources
and Environmental Protection Act, Act 451 of the Public Acts of 1994,
and Act 316 of the Public Acts of 1988**

Present the

FISCAL YEAR 1996 ANNUAL REPORT of the MICHIGAN STATE REVOLVING FUND

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I. INTRODUCTION

This Fiscal Year (FY) 1996 Annual Report is submitted to the United States Environmental Protection Agency (EPA) in compliance with Sec. 602(b)(10) and Sec. 606(d) of the Federal Water Pollution Control Act, P.L.92-500, as amended. It covers the period from October 1, 1995, to September 30, 1996, highlighting the activities of Michigan's State Revolving Fund (SRF) loan program.

It is important to note that as of October 1, 1995, responsibility for the SRF shifted from the Michigan Department of Natural Resources to the newly created Michigan Department of Environmental Quality. FY1996 was the first fiscal year in which MDEQ was responsible for this program. Principal administration of the program continues to reside in the Municipal Facilities Section of the Environmental Assistance Division (EAD).

MDEQ and the Michigan Municipal Bond Authority (the Authority) jointly administer this program under the authority of Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, Act 451 of the Michigan Public Acts of 1994 and Act 316 of the Public Acts of 1988. The state also conducts its SRF in a manner consistent with requirements established in the federal Water Pollution Control Act (P.L.92-500, as amended) and federal regulation.

We offer this comprehensive public report to detail the activities undertaken to reach the objectives set forth in the FY1996 final IUP. These reports are offered in written form and will be available as a read-only file through the Municipal Facilities Section Home Page found in the World Wide Web on Internet. The Internet address is [HTTP:\WWW.MDEQ.STATE.MI.US\EAD\MFS](http://www.mdeq.state.mi.us/ead/mfs).

II. CAPITALIZATION OF SRF

During FY1996, Michigan received a federal grant amounting to \$86,752,116. This federal capitalization grant was awarded in four steps. The initial capitalization grant for FY1996 was awarded on January 26, 1996 in the amount of \$14,513,796. The first amendment increased the grant by \$16,477,461. Amendment No. 2 added \$24,663,870, while the fourth amendment brought the total capitalization amount to \$86,752,116 for the fiscal year. The state is also required to provide a 20 percent match for each federal dollar contributed to capitalize the SRF. To match the FY1996 total federal grant, Michigan provided \$17,350,423. The source of this match was derived from state general fund appropriations.

In addition to the federal and state capital contributions, the SRF is also capitalized with principal and interest payments from earlier loans and from released funds from debt service reserve accounts. Thus, for FY1996, the total capitalization of the SRF was:

Title VI Fund	\$86,752,116
Sec 205(m) Transfers	\$0
State Match	\$17,350,423
Principal Repayment	\$16,823,825
Interest Repayment	\$7,305,184
Investment Earnings	\$23,543,066

III. PROGRAM ISSUES

Binding commitments made during FY1996 were awarded with an interest rate of 2.25 percent. Repayments are amortized over 20 years with approximately level debt service. There were no guarantees or refinancings provided during this fiscal year. All commitments were made to qualified Section 212 projects.

There were no commitments made to Section 319 nonpoint source projects. We worked with appropriate staff from the nonpoint source program in the Surface Water Quality Division in an attempt to identify Section 319 projects on the 1996 PPL and Needs Survey. The construction of their files and the lack of readily available information prevented completion of this task. Given the limitation of establishing a viable repayment source for nonpoint source projects, Michigan has not yet funded a nonpoint source project. At the same time, however, Municipal Facilities staff have attempted to educate local officials about the potentials for funding nonpoint source pollution control within the SRF program. We have specifically focused this year on agricultural producers and have been laboring to construct a funding mechanism to address their needs.

Fulfillment of the "first use" requirement [Sec. 602 (b)(5)] was met by virtue of all communities on the National Municipal Policy list being in compliance, under court-order with a fixed schedule, or under construction.

Projects were drawn from the FY1996 PPL administered under provisions set forth in Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, Act 451 of the Public Acts of 1994, and its accompanying administrative rules. A copy of this list was submitted to EPA prior to the start of FY1996. Interested parties may contact the section to receive a copy.

All projects receiving assistance during FY1996 are designated by the State as equivalency projects and complied with, or committed to comply with, all applicable remaining Title II requirements prescribed in Section 602(b)(6) of the Clean Water Act, as amended. No financial assistance has been offered to any community that has not satisfied, or committed to satisfy, all such requirements.

The MDEQ continues to promote the SRF in local community meetings, through continued dissemination of the SRF Brochure and Guidance Document, through The Digester, and through participation in various public forums.

This year, staff upgraded a computerized presentation explaining the SRF. This presentation is targeted toward local community groups and is available in three separate media--slides, overheads, and diskette. This presentation can be readily tailored to a specific audience by adding, deleting or editing the slides. It was created using Microsoft Powerpoint and can be run as a stand-alone file without requiring the software.

IV. GOALS AND ACCOMPLISHMENTS

A. Short-Term Goals and Accomplishments

Michigan's IUP described five short-term goals to be implemented during FY1996. They were:

1. *To continue on-going revisions to the SRF Procedures Manual chapters. This is a continual process involving staff and management to review and redraft chapters to reflect changes in operational procedures of managing the SRF program.*

Expected chapter revisions for Chapter II (EPA Interface), Chapter V (Eligibility), Chapter IX (Data Management) and Chapter XI (Revenue Systems) were not completed during FY1996 due to assignment of staff to increased project workload and need to respond to the Drinking Water SRF. Management reviewed staff resources and will make revised assignments to complete the redrafting of these chapters early in FY1997.

2. *To work with the Michigan Municipal Bond Authority to integrate electronic exchange of the financial information used in administering the SRF Program.*

The program and financial managers of the SRF worked together during FY1996 to identify hardware and software necessary to interface MDEQ's SRF data management system with the Authority's financial reports. The interface was completed to permit the Authority access to the SRF Database to input disbursement information, bonding information and administrative completion data directly into the database. Further exploration of uses will occur in the future.

During the interim period, the two agencies shared computer files throughout the year to update the SRF database with financial information. This new interface allows more up to the minute information for each project and enhances the state's ability to respond to outside requests.

3. *To secure a permanent and on-going source of state match funding outside the SRF.*

During FY1996, the department was able to secure match from the general fund to cover expected needs for the Clean Water and Drinking Water SRF. This is not a long-term solution, however, and we will continue to solicit support and investigate new ways to meet this need, providing Congress reauthorizes additional federal funding. There is a greater awareness now of the benefits of the SRF program which promotes a more receptive attitude toward this funding program.

4. *To add report generation capabilities for the SRF Data Management System.*

During this fiscal year, staff has continually added query-based report generation capabilities to the data management system. These reports have provided much of the data incorporated into this annual report. In addition, reports designed to enhance individual project management have been added to allow managers retrieval capabilities for their own projects. Data population is nearly complete for items identified as historically useful to track and for current projects.

5. *To work with EPA and the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) to promote reauthorization of the federal Clean Water Act.*

Michigan continues to play an important oversight role through ASIWPCA and the Council of Infrastructure Financing Authorities (CIFA). Staff continues a relationship with the National Governors' Association, providing technical assistance upon request. The focus on the latter part of the fiscal year has been on the Drinking Water SRF legislation.

6. *To fund those projects identified in the IUP, enabling them to proceed with construction of facilities included in their adopted project plan.*

This was a particularly challenging year since the federal budget crisis was not resolved until almost midway through the year. Consequently, no projects were funded in the first or second quarters of the fiscal year. Of the 40 projects on the final FY1996 PPL, the SRF provided financial assistance to 14 projects totaling \$136,230,000. Several communities were originally included in the fundable range, but failed to take the steps necessary to complete their financing. The additional amount of binding commitments brings the grand total since inception to \$602,720,000, loaned for 114 projects.

B. Long-Term Goals and Accomplishments

Michigan's IUP also included six long term goals that would be addressed by the SRF. They were:

1. *To achieve and maintain statewide compliance with state and federal laws, as well as Michigan's water quality standards;*

The SRF is a major inducement for local municipalities to cooperate and voluntarily seek to achieve compliance with state and federal laws and water quality standards.

MDEQ maintains a core belief that achievement of pollution prevention is far more cost-effective than paying for clean-ups after the fact. To this end, the department is working to enhance compliance efforts through greater education and outreach within several targeted industries, commerce, and local units of government.

Each potential project is examined to ensure compliance with water quality standards, while also meeting criteria to establish the solution as the cost-effective alternative in order to protect the viability of the SRF.

It is important to note that after eight years of operation, Michigan's SRF program is the nation's leader in funding Combined Sewer Overflow (CSO) abatement efforts. Chart 3 identifies the total expenditures in each of the categories tracked for the federal Grants Information Control System. It shows that 29 percent of the current binding commitments went toward abatement of CSO problems. To date, 54 cents of every dollar loaned from Michigan's SRF has been used for correction of CSO problems.

2. *To protect the public health and environmental quality of our state.*

Inherent within the program is our resolve to first protect the public's health and welfare. Our priority system is structured to give greatest weight to problems which most impact the health of Michigan's citizens and environmental integrity of our state. This commitment runs across the state, but is especially noteworthy for the accomplishments in Grand Rapids, Lansing and Southeastern Michigan for the construction of CSO abatement projects. Earlier visible reminders of untreated outfall are much less prevalent today to those using the Grand and Rouge Rivers for recreational activities and to those that depend on these rivers for their livelihood.

3. *To continue working toward integrating Section 319 nonpoint source pollution projects into the mainstream of the SRF.*

Throughout FY1996, staff met with interested stakeholders to work out the details of a nonpoint source pollution abatement program to focus on agricultural producers. A survey of interest was completed and opinions sought on how to effectively meet this need.

There was a great deal of interest expressed and during FY1997 we will prepare legislation that would allow Michigan to offer loans to agricultural producers for a limited range of qualified projects. The major question to resolve is whether or not this will fall within the scope of the current SRF or will be structured to parallel this fund. We anticipate a first draft of legislation to be completed for bill sponsorship during the second quarter of FY1997.

4. *To further integrate principles of watershed management and water quality restoration within urban, as well as outstate, areas.*

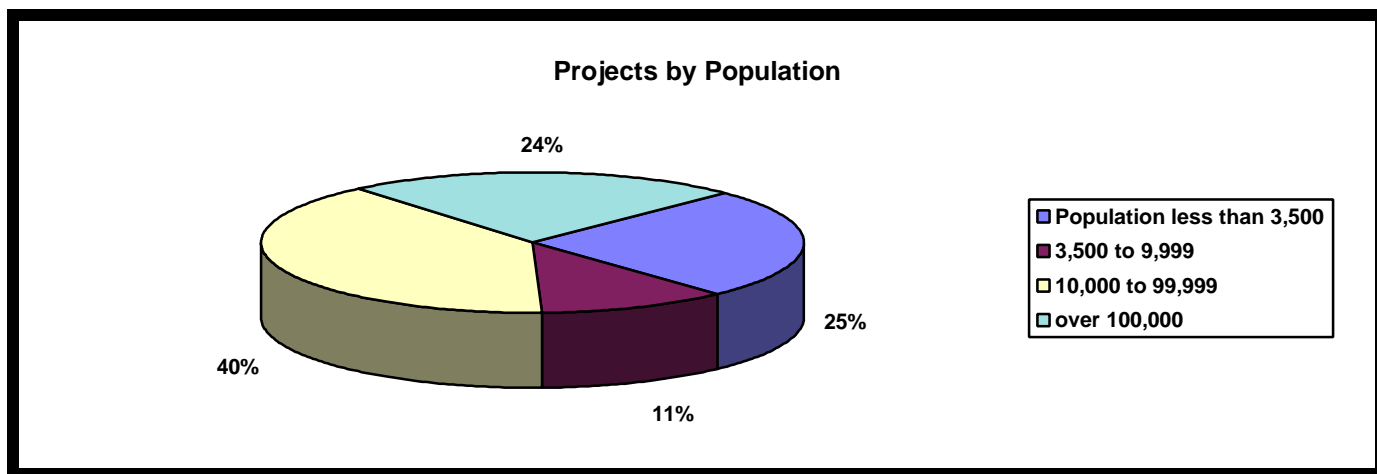
The SRF data management system has been designed to identify major watersheds for each project. This will facilitate closer cooperation of field staff and central managers to oversee projects that will impact entire watershed areas. It is possible now to pull information from the system that will draw from the river basin codes.

We have already sought to incorporate the watershed sensitivity into our project management. A good example continues to be the Grand Rapids CSO correction strategy which minimizes pollutants downriver in other communities of the Grand River watershed. Our continuing efforts to work with communities in the Rouge River watershed in addressing their needs also reflects our commitment to watershed management.

5. *To secure Michigan's full share of federal funding available under Title VI and to expeditiously obligate these moneys, along with state contributions for the construction of water pollution control activities that meet state and federal requirements. Funds shall be loaned at a rate of interest low enough to encourage the use of the SRF and administered in a sound fiscal manner to ensure that repayments to the fund will be available for future use according to the standards of perpetuity set forth at the program's inception.*

The SRF has applied for and received all available capitalization grants through FY1996's federal appropriation. These funds are being committed to local units of government in an expeditious manner. The accompanying charts document the progress made since the inception of the program. An item of particular note is the distribution of funds to smaller communities. A total of 42 loans, or 36.8 percent of loans made, were issued to communities less than 10,000. In dollar volume, almost \$120,000,000, or 20 percent of total binding commitments went to these same smaller communities. To date, the numerical distribution of SRF loans is as follows:

Population less than 3,500	29
3,500 to 9,999	13
10,000 to 99,999	45
over 100,000	27
TOTAL LOANS	114



6. *To establish an effective program of community environmental education, outreach, and involvement within watersheds.*

Using a portion of a 104(b)(3) grant awarded to Michigan to cover production costs, MFS staff has developed a new display poster entitled "Sharing Michigan's Watersheds. The poster is designed to teach the importance of sharing the resources of a watershed among a diverse collection of users. It is being distributed through schools, nature centers, community offices and through the department's district offices.

Under the same grant the Huron River and Kalamazoo River watersheds received particular attention. Staff aided local efforts in producing a promotional brochure for the former that was mailed to over 10,000 targeted stakeholders and a newspaper tabloid in Kalamazoo that highlighted information about their local watershed. The latter was distributed to over 104,000 homes and businesses.

Through these efforts, along with the future development of a watershed emphasis on the Municipal Facilities Home Page, we hope to foster greater awareness of the need to cooperatively manage our watershed resources and address water pollution problems on the wider watershed scope.

V. DETAILS OF ACCOMPLISHMENTS

A. Fund Financial Status

1. Binding Commitments: The SRF made 14 additional binding commitments to Section 212 projects during the fiscal year. No assistance was awarded to any project not meeting Section 212 criteria. The state's commitments are made in the form of Orders of Approval issued by the Chief of the Environmental Assistance Division on behalf of the MDEQ.

Chart 1 (*Funded SRF Projects to Date*) provides a complete, chronological list of all projects assisted by the SRF. Cumulative loan amounts and number of projects funded in each fiscal year are included.

During FY1996, \$136,230,000 was committed. The total cumulative binding commitments to communities equals \$602,720,000 as of September 30, 1996.

These amounts are reflected on Chart 1B and demonstrate how Michigan's SRF satisfies Sec. 602(b)(3) of the federal Clean Water Act. This chart documents Michigan's progress in offering binding commitments to exceed the required 120 percent of federal Automated Clearinghouse (ACH) increases within one year. Through the end of FY1996, Michigan was required to commit \$451,137,968 in loans. In fact, \$612,285,876 has been identified as binding commitments counting loan commitments to projects, as well as administrative expenses incurred and paid to date. If we include 4 percent of the federal capitalization grants to date, which is counted by EPA toward binding commitment as state administrative expense, the total is increased to \$624,409,660.

2. Capitalization Grants: The Michigan Water Pollution Control Revolving Loan Fund was awarded a capitalization grant from FY1996 federal funds. This amounted to \$86,752,116 and was matched by the state with a \$17,350,423 contribution. Loans were awarded from these funds, in part, and from remaining uncommitted balances from earlier awards.

Payments on the capitalization grants increased the funds available through the ACH process. The increase in ACH payments made by EPA during the fiscal year was \$5,103,731. Payments are complete for the FY 1989, 1990, 1991, 1992 and 1993 capitalization grants. To date, Michigan has received payments from the ACH system totaling \$375,948,307. A balance of \$24,579,835 remains in the FY1994 grants, while the FY1995 and FY1996 funds have not been tapped. They carry balances of \$52,961,238 and \$86,752,116, respectively.

Chart 1B also presents the federal payments to Michigan, by quarter, for each of the awarded federal grants.

3. Other Revenue: In addition to the capital provided by EPA and the state, principal repayments of \$16,823,825 and interest repayments of \$7,305,184 were made to the SRF by local borrowers of earlier fiscal year funds. Other sources of investment income, totaling \$23,543,066, were also generated from fund holdings and will be identified in the Authority's financial reports. The SRF also recovered \$2,872,099 from administratively completed projects during FY1996. This brings total recoveries to \$4,653,113.
4. Disbursements: Additional disbursements of \$61,031,171 were made during FY1996, bringing the total during the program's life to \$432,221,603. This included administrative expenses accrued to the Authority during the fiscal year in the amount of \$208,103. The amount of \$1,667,692 covered expenses accrued to the MDEQ for the same period of time. **(For the sake of clarity, it should be noted that expenses are accrued for the fiscal year and may not be fully disbursed in cash prior to the end of the year.)** These amounts are identified in *Chart 4, Sources/Uses of SRF Funds*.

Staff spent time this year reconciling disbursements for administrative expenses against submitted requests. Small discrepancies were identified and corrected on Chart 4. To date, the Authority has expended \$1,217,089 in program administration, while MDEQ has used \$8,348,787. Other bond expenses (underwriter costs and bond counsel) are not paid from SRF funds held on account. Such expenses are directly subtracted from each bond issue.

5. Audit Report: An audit of the Authority's financial records for the SRF will be forwarded upon completion. Unaudited financial records will be sent under separate cover from the Authority.

The last audit concluded by Plant Moran during FY1996 found that the SRF program reporting procedures were in compliance with Generally Accepted Accounting Principles (GAAP), and also encompassed Generally Accepted Governmental Accounting Standards (GAGAS). The audit supported findings of the 1995 Annual Report.

We believe these financial statements reflect the condition of Michigan's SRF and underscore the sound management necessary to ensure the health of the fund in relation to its goals and objectives. This state has fulfilled requirements found at 40 CFR 3135(h) by establishing fiscal controls and accounting procedures to assure proper accounting for payments received by the SRF, disbursements made by the SRF, and SRF balances.

6. Credit Risk of the SRF: Michigan undertakes an exhaustive review of each applicant's credit-worthiness. This review examines the financial health of the community and its primary commercial and industrial base. The resulting approval of each applicant provides a sound basis for awarding assistance to only those communities possessing the ability to repay the loan.

No assistance is offered to any community that is unable to demonstrate an investment grade rating. If a community cannot demonstrate a minimum investment grade rating, we expect them to seek credit enhancement or finance through another governmental agency (such as the county). This must be done in order to secure their credit position before the Order of Approval can be written.

B. Assistance Activity

Loan assistance through the Authority was awarded to each of the municipalities that received an Order of Approval from MDEQ. These are included in *Chart 1*.

C. Provisions of the Operating Agreement/Conditions of the Grant

The state of Michigan agreed to a number of conditions in the Operating and/or Capitalization Grant Agreement. These conditions are described below:

1. Provide a State Match: The Michigan Legislature appropriated the amount necessary for the 20 percent FY1996 state match. It is held in a state common cash fund administered by the Michigan Department of Treasury. At or prior to the time of each draw on the federal ACH, state funds are deposited to the SRF account through a state transfer process consistent with federal requirements.

The match for projects awarded prior to the start of FY1996 is appropriated from funds that carry no requirement for repayment from SRF capital funds. They were derived from general fund appropriations of the state.

2. Binding Commitments: The state entered into 14 binding commitments to provide assistance from the SRF to local municipalities. By the act of offering these commitments during FY1996, Michigan has exceeded the requirement for award of 120 percent of the payment amount within one year. Documentation of performance is shown in *Chart 1B*.

Additionally, we account for \$9,565,876 in actual administrative expenses, which are also applied against the state's binding commitment requirement. EPA staff has allowed that the full 4 percent of the federal capitalization grants should be accounted as binding

commitment at the time of each grant award. Michigan has chosen to account for actual administrative expenses for programmatic reasons.

3. **Expeditious and Timely Expenditure of Available Funds:** The disbursement processing system established by MDEQ and the Authority has consistently provided communities with funds within ten days of receipt of their disbursement request form.

Michigan's total processing time for payments is less than 10 days from receipt of request for funds to the wire transfer. The federal share is provided through the federal ACH. State funds are drawn simultaneously with the federal funds during this time. The state portion is drawn through the treasury inter-accounting system. The draw method used in Michigan satisfies our state requirements to provide a state match prior to, or at the time of, the federal draw on the ACH system.

EPA annually reviews the reimbursement process used by MDEQ and the Authority to ensure that payments to municipalities are made in a timely and expeditious manner. In most instances, a wire transfer occurs within 10 days of receipt of a request for reimbursement from the local unit of government. The EPA on-site visits have affirmed Michigan's sustained ability to turn payment requests around quickly. The local communities and the contractors know that we will expeditiously handle this important task, ensuring no delays in the flow of funds to the project. Documents upon which this assessment is based are available for inspection at MDEQ and Authority offices and are included in the SRF database.

To date, Michigan's SRF has committed \$602,720,000 in project loans. Administrative expenses, which also count toward binding commitments equal \$21,609,660, assuming 4 percent of all federal capitalization grants to date. Accounting for the reserve requirement for bonds sold, Michigan is ensuring expeditious commitment of the available money in the SRF to local municipal projects.

4. **First Use of Funds for Enforceable Requirements:** The EPA Region 5 has concurred with Michigan's certification of these requirements. All communities are either in compliance, under court order with enforceable schedules, under construction, or are funded.
5. **Amendments to Original Intended Use Plan:** The final IUP and PPL for FY1996 were submitted to EPA on December 27, 1995.
6. **Compliance with remaining Title II requirements:** Each municipality assisted during FY1996 has fully complied with, or has committed to comply with, all remaining Title II requirements. Therefore, all dollars committed by the state will count toward the equivalency requirements for Michigan's SRF.
7. **Minority and Women's Business Enterprises:** In order to meet federal initiatives, the state of Michigan agreed to an overall fair-share objective for FY1996 of 4 percent for Minority Business Enterprise (MBE) and 4 percent for Women's Business Enterprise (WBE). In its attempt to meet this objective, the state advised all potential applicants for SRF loans of this commitment. In addition, the state included a reporting requirement as a special condition in all supplemental agreements executed between the loan recipient, MDEQ and the Authority.

As part of the state's continuing effort to meet the MBE/WBE objective, presentations are made at the pre-bid meetings to explain the federal requirements to potential contractors, subcontractors and suppliers.

Compliance with the loanee's reporting requirements has shown that the state of Michigan has exceeded its MBE/WBE objective for FY1996 by reaching an actual participation of 11.02 percent for MBEs and 4.48 percent for WBEs. These figures were reported on October 11, 1996 to Mr. Robert Richardson, EPA's MBE/WBE Officer, in the state's required submission during the fourth quarter of FY1996.

8. Other Federal Authorities: The state of Michigan requires each municipality to comply with all applicable federal cross-cutting authorities and stipulates that the authorized representative so certify in the application. The Application for Assistance sets forth municipal requirements for compliance with federal cross-cutters.

We seek up-front coordination by involving a wide range of agencies in the Finding of No Significant Impact (FNSI) process during drafting of the Environmental Assessment (EA). These federal, state, and local agencies are given the chance to add input to the project and comment on any cross-cutting issues.

Environmental cross-cutters are typically addressed during review and approval of a project plan. Activities conducted by MDEQ staff are presented in the Project Planning/EA chapter of our SRF procedures manual.

Cross-cutting issues relating to social legislation are dealt with prior to the loan award through applicant certifications mentioned earlier and through follow-up reporting, such as in the case of MBE/WBE requirements.

Our staff procedures manual outlines the appropriate response in the event cross-cutting issues arise. When warranted, we coordinate contacts with appropriate agencies. If necessary, the state will seek assistance from EPA for help with non-agency federal offices.

9. State Environmental Review Process: The 14 communities receiving assistance during FY1996 were reviewed and approved using the state's environmental review procedures. It was determined that no Environmental Impact Statements (EIS) were necessary; instead an EA was prepared and a FNSI was issued for each project.

The SRF has been challenged in Federal District Court over its environmental review of a project. In its ruling, the court supported Michigan's environmental review process in its application of both federal and state laws and suggested no changes.

10. Consistency with Planning: No project plan in the state of Michigan can be approved without sign-off from the appropriate 208 planning agency, which documents the submittal is consistent with regional planning. Assurance of this review is inherent within each and every plan we approve.

Section 205(j) and 303(e) requirements are administered separately from the SRF by various sections of the Surface Water Quality Division (SWQD). Sec. 303(e) requirements are satisfied via our state permitting process. In order to continue Michigan's delegated permit writing program, the state must comply with Section 303(e). Prior to receiving the first capitalization grant, this office verified the existence of an approved planning process. The EPA's continued recognition of our delegation is proof that we remain in compliance.

Further, Section 205(j) requirements are handled through the SWQD administrative unit. Grants have been made to several local and regional entities to carry out water quality management planning.

Approximately 40 percent of the 205(j) allotment goes to support local units of government. The remainder is used within the SWQD to support water quality management planning activities within MDEQ.

11. Cash Disbursements: Procedures are executed in conjunction with the Authority. The MDEQ receives requests for disbursements from the local municipalities. We review them for content and accuracy and then transmit them simultaneously to the Authority and the Michigan Department of Natural Resources' Office of Budget and Federal Aid. (**Note: MDNR has continued processing payments for the SRF. This will transfer to MDEQ on October 1, 1996.**) The respective offices will process a request for a state match transfer into SRF and process a request to draw on the federal ACH system in accordance with 40 CFR 35.3135(b)(1). Once in the SRF account, the Authority processes a wire transfer of funds to the local municipality.

This process has been successful in disbursing moneys from the SRF within 10 days of receipt of a request from the municipality.

12. Administration of the SRF: The MDEQ has agreed to administer the SRF in accordance with its application, IUP and the Operating Agreement. In doing so, certain administrative procedures are implicit. The operation of the fund is bound by the following provisions:

agreement to accept payments
state laws, rules and procedures
state accounting and auditing procedures
recipient accounting and auditing procedures
use of ACH federal payment system
repayment
annual audit requirements
annual report
annual review

To the extent of any conflict amongst these documents, the MDEQ further agreed that terms of the Grant Agreement will prevail.

13. Automated Clearinghouse: Michigan has agreed to accept payment from EPA through the ACH system and has abided by cash draw rules.
14. Legal Certifications: The state of Michigan has provided all necessary certifications from the state Attorney General's office, which attest to its ability to implement the SRF and bind itself to the terms of the Capitalization Grant Agreement. The certification for the FY1996 capitalization grant was dated November 17, 1995.
15. Cash Draw Schedules: The cash draw figures set forth in *Chart 5, Project Disbursements*, reflect chronological disbursements made to each project during the fiscal year. In its final IUP for FY1996, Michigan had requested no cash draws in the first or second quarters, \$30 million each in the third and fourth quarters, and the remaining \$8,602,034 in the first quarter of FY1997. Charts 1B and 4 both reflect the actual ACH activity during the current

fiscal year, as well as show the historical summary of all draws to date. There are differences between amounts requested in the IUP and actual amounts.

To date, the SRF has received capitalization grant payments of \$375,948,307. The federal share of all disbursements drawn to date equals \$360,336,676. The state draw share during the same period amounts to \$72,084,632. At the end of the 1996 fiscal year, \$15,611,631 remained to be drawn against capitalization payments requested to date.

VI. SIGNIFICANT PROJECT ACCOMPLISHMENTS OF THE SRF

To date, Michigan's SRF has awarded \$602.7 million in loans and has disbursed \$432.2 million in disbursements. This represents 71.7 percent outlays of loan awards to date for projects. We have awarded 80 percent of the funds available, with the balance held on reserve against bond default. Interest repayments from earlier awards are being held for possible repayment of state revenue match bonds for future issues. Principal payments from these loans and investment earnings have been building and will be used to supplement declining federal capital contributions. This strategy allows us to better maintain program expectations within the municipal, consulting, and contractor stakeholders.

Of the total amount loaned during FY1996, \$62,406,529 has been used to fund construction of sewage treatment facilities; \$0 for sewer rehabilitation projects; \$33,718,471 for collector and interceptor sewers; and \$40,105,000 million for CSO abatement. The interest rate for projects funded during the first five years was 2 percent. For 1995 projects and beyond, it increased to 2.25 percent. These translate into approximately 40 percent grants when compared against the average open market.

The SRF is proving to be much more efficient in administratively completing projects than the predecessor Construction Grants Program. A list of all projects administratively completed through September 30, 1996 is included as Chart 8. Staff administratively completed 15 projects during the fiscal year, bringing the total completed to 35. This total represents 31 percent of all loans awarded to date.

Chart 7 - Project Initiation of Operation (I/O) Dates demonstrates the projects that have actually commenced operation during FY1996.

It is important to note that a refinancing was carried out this year to defease all of the outstanding 1992A and 1994 series bonds. These issues were originally sold at a higher rate of interest. When favorable market conditions existed in August, 1996, the Authority acted in conjunction with bond counsel, tax attorneys and underwriters to execute a sale of \$86,750,000 in new bonds to defease the more expensive issue and save money.

In total, Michigan's SRF has gone to the market for five issues. In addition to the refinancing bonds sold in August, 1996, \$91,110,100 in bonds were sold in 1992. In 1993, \$102,220,000 were sold. The third issue in early 1995 totaled \$87,280,000 and the fourth issue was sold for \$86,290,000 in May, 1996. These bonds are used to provide disbursement proceeds for project draws and are timed to cover a period running from 12 to 15 months at a time.

Examples of two specific accomplishments during this fiscal year are found in projects for Salem Township and White Lake Township. Funding of these projects is not significant due to size or scope, but rather the amount of time and energy devoted by local officials and SRF staff to make them happen.

The Michigan SRF provided Washtenaw County/Salem Township with a \$2,255,000 loan in the fourth quarter of FY1996. Salem Township will use this money to construct a conventional gravity sewer system and a wastewater treatment plant with a capacity of 50,000 gallons per day.

The project's service area is limited to the hamlet of Salem. The existing population to be served by the proposed project is 105 single-family residences or residential equivalent units (REUs). Planning documents show that 250 REUs are expected in the future.

Given the small population sharing in the costs of this project, low-interest financing was very important to the community. The SRF loan will be combined with a \$400,000 grant from the Community Development Block Grant - Rebuild Michigan Program to make this project more affordable to the residents of Salem. Even with this assistance, the estimated monthly household cost is \$98 - the highest in the history of the Michigan SRF program.

Regardless of the cost, Salem residents are looking forward to project completion. This project is expected to resolve more than two decades of water pollution problems. The soil in the area is unsuitable for the proper operation of septic tank systems and wastewater from on-site systems is ponding in some areas. A large percentage of buildings in the hamlet of Salem do not have approved sewage disposal systems. A study published in 1975 found that all of the hamlet's storm drains were carrying sanitary waste. The resulting surface water pollution has continued to the present day.

Construction is underway and the project is scheduled to initiate operation on August 30, 1997. When completed, the project is expected to resolve the water pollution problems described above and enhance the environment of Salem.

The SRF was instrumental in moving this project from the planning to construction phase. Despite the high cost and the number of years involved, the project would probably have still been only a discussion topic if the hamlet of Salem would not have been able to pursue SRF funding. Funding for smaller communities, such as Salem, is available for those local officials facing known water quality problems. Salem's story is a graphic answer to critics who contend that the SRF only finances larger projects.

The second project is Oakland County on behalf of White Lake Township. After nearly two decades of efforts by local, county, and state governing authorities to correct the operational problems of three existing technologically obsolete wastewater treatment plants and to resolve problems with on-site sewage systems, Oakland County-White Lake Township received an SRF loan in FY1996. On September 5, 1996, MDEQ issued an Order of Approval for \$9,350,000 to construct a sanitary interceptor sewer and associated sewers and pump stations in White Lake Township. The project also covers the purchase of treatment capacity in the existing South Commerce Wastewater Treatment Plant.

The project consists of three construction contracts and includes sanitary sewers, pump stations, and appurtenances to eliminate pollution problems caused by three existing wastewater treatment plants operating in White Lake Township, Oakland County, Michigan. Over six miles of gravity sanitary sewers and about two miles of sanitary force main sewers will be installed. The project also includes the construction of one new pump station, the reconstruction of an existing pump station, and the rehabilitation of an existing pump station.

This project was plagued by a number of set-backs. In 1988, red-sided dace was found in the Seeley Drain, raising concerns about endangered species. Question also arose about discharge permits and expansion of the South Commerce Township Treatment Plant. The project began to appear in the fundable range of SRF projects on the PPL, but could not yet resolve these issues with district staff.

After many meetings, discussions and personal attention by MFS staff, the technical and environmental issues were finally resolved and funding for the project was extended in the fourth quarter of FY1996.

VII. CONCLUSIONS

Michigan's SRF program has matured into a well-run and well-received financing program. The state has been able to deliver its available funds in a manner that emphasizes consistency of environmental review,

financial capability standards, as well as delivery of reimbursement for project costs. A core of experienced professionals has been instrumental in working with local municipalities to achieve improvements in water quality across the state. Of the 114 projects funded to date, we have administratively completed 35 loans as of the end of the fiscal year. There are 62 projects to date that have initiated operations.

We have successfully balanced distribution of funds to all parts of the state, to both large and small communities who have documented their water pollution problems and followed through with cost-effective plans and designs. In spite of some criticism from a small minority of rural communities who believe that we have not allowed them to successfully compete for funds, Michigan's track record in delivering funds is strong. Over one-third of the loans went to communities with less than 10,000, netting 20 percent of our total commitment in dollars.

During FY1996 we also completed review and input for the 1996 national Needs Survey, working closely with EPA and their contractors to submit the data for inclusion in the survey.

We have successfully engaged in public outreach on water quality protection needs and have demonstrated our commitment to the Association of State and Interstate Water Pollution Control Administrators by hosting their 1996 Annual Meeting. In doing so, we were able to share information about Michigan's approaches to the SRF with administrators from all over the United States.

As FY1996 drew to a close, staff of the Municipal Facilities Section received instructions from Director Russell Harding to begin work on implementing the new Drinking Water SRF program. The track record that the section has developed administering the Clean Water SRF caused the director to assign implementation and administration of the new program to the Municipal Facilities Section. Staff will be working with technical staff in the department's Drinking Water and Radiological Protection Division to carry out this assignment. We anticipate future Annual Reports will include activities for both Clean Water and Drinking Water SRFs.